EBA REPORT ON THE FUNCTIONING OF SUPERVISORY COLLEGES IN 2017

16 March 2018

EBA EUROPEAN BANKING AUTHORITY

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Abbreviations

BCBS	Basel Committee on Banking Supervision
BRRD	Bank Recovery and Resolution Directive
CET1	Common Equity Tier 1 capital
CCP	central counterparty
CRD	Capital Requirements Directive
EBA	European Banking Authority
EEA	European Economic Area
EU	European Union
FX	foreign exchange
GRP	group recovery plan
ICAAP	internal capital adequacy assessment process
IFRS	International Financial Reporting Standards
ILAAP	internal liquidity adequacy assessment process
IT	information technology
JD	joint decision
M&A	mergers & acquisitions
NCA	national competent authority
NPL	non-performing loan
P2G	Pillar 2 guidance
P2R	Pillar 2 requirements
RWA	risk-weighted asset
SEP	supervisory examination programme
SREP	supervisory review and evaluation process
TSCR	total SREP capital requirement
WCCA	written coordination and cooperation arrangement

Executive summary

Based on its founding regulation, the EBA has an important role in ensuring the consistent functioning of supervisory colleges across the EU. For the EBA to be able to deliver on this mandate, 20 colleges for large cross-border banking groups have been selected for close monitoring in 2017, and an additional 54 have been monitored on a thematic basis.

Overall, significant improvements have been achieved over the past couple of years in college interactions, responsiveness, and the quality, coverage and reasoning of the joint decision documents. Further efforts are expected from both the home and host supervisors to enhance the joint decision process and the completeness of the SREP assessments.

The vast majority of closely monitored colleges maintained frequent interactions in 2017, which typically included quarterly engagement in a multilateral setting. Most colleges maintained active cooperation with EBA staff and were responsive to recommendations. Operational arrangements, in particular the exchange of early warning indicators, should be strengthened.

All closely monitored colleges dedicated sufficient time for exchanging supervisory views on the group risk assessments. While the risk assessments differed in terms of granularity across colleges, all provided a good summary of the evaluation. Nevertheless, there were no improvements concerning the timely distribution of mandatory annexes in some affected colleges, as required by Regulation 710/2014, covering the risk-by-risk breakdown of capital as well as liquidity measures.

Considerable improvements were identified in the quality of both the capital and liquidity joint decisions, which were well reasoned and contained clear references to the conclusions of the SREP. The draft joint decision documents were distributed well before the college discussions in many colleges, and included preliminary quantitative and qualitative requirements, unlike last year, but some colleges still did not share the documents or distributed them very late. In other cases, the signing process was inefficient and required EBA intervention.

In around half of the colleges, members were unable to reach joint decisions on the assessment of group recovery plans, mainly because of requests for individual recovery plans in addition to the group recovery plans, resulting in either partial joint decisions or unilateral decisions. In this context, not all available tools for reaching a joint decision have been used by the relevant authorities, in particular the option to resolve such disagreement through mediation.

The EBA identified four key topics for supervisory attention for 2017: (i) NPLs and balance sheet cleaning; (ii) business model sustainability; (iii) operational risk including conduct risk and IT risk; and (iv) comparability of RWAs and the use of EBA benchmarks in SREP. Colleges in general reflected these topics in their interactions, with less engagement on the comparability of RWAs.

The EBA also observed improvements in the colleges followed on a thematic and selected basis, where generally good supervisory coordination among college members has been observed or reported in the self-assessment templates.

The EBA's college monitoring activity in 2017

The EBA's approach to college monitoring in 2017

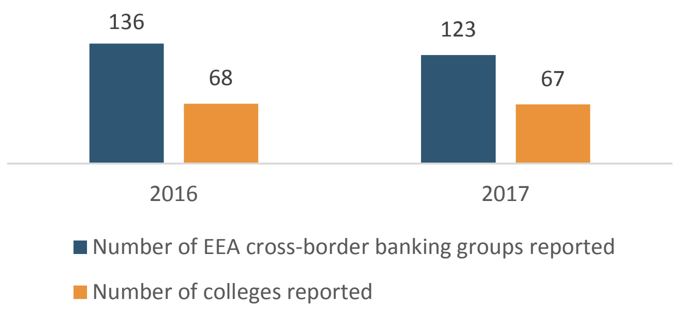
1. Building on its experience gained over recent years, in 2017 the EBA defined two groups of colleges for monitoring:
    a) closely monitored colleges;
    b) colleges followed on a thematic or selected basis.

2. For the closely monitored colleges, all college activities have been followed by EBA staff, including participation in meetings and conference calls. Detailed feedback was provided to the colleges on their functioning. With the colleges followed on a thematic or selected basis, EBA staff interacted only on specific topics and in selected cases.

Cross-border banking groups in the EEA

3. Overall, 123 cross-border banking groups with parent companies in the EEA and 120 third-country banking groups were identified by the EBA mapping in 2017. From the 123 EEA groups, 67 active colleges[1] have been reported, and seven of the third-country banking groups have in place active colleges at EEA sub-consolidated level.

Figure 1 — EEA cross-border banking groups and active colleges: 2016 versus 2017



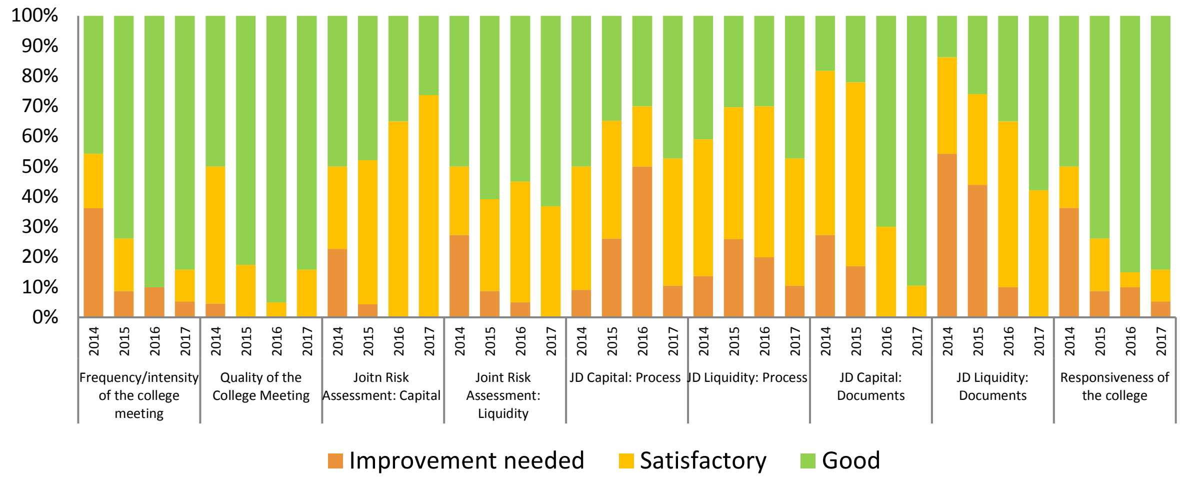
4. The number of active colleges has remained stable since 2017 (see Figure 1), as restructuring and retrenchment of banking groups from cross-border activities has been offset by new banking groups or colleges being established. Therefore, a total of 67 EEA supervisory colleges have been identified, of which 20 were classified as closely monitored colleges, and 54 as colleges followed on a thematic or selected basis (including the seven third-country banking groups' colleges).

[1] Banking groups where the CRD requirements (CRD Article 116 or 51.3) were met for the establishment of a college of supervisors.

Closely monitored colleges[2]

5. This section of the report provides a summary of observations and findings from monitoring the 20 colleges selected for close monitoring. The EBA monitoring and assessment of colleges covers the following main elements:
    a. organisational aspects;
    b. college interaction;
    c. group risk/liquidity risk assessments;
    d. joint decisions on capital and liquidity;
    e. joint decisions on the assessment of GRPs;
    f. key topics for supervisory attention in 2017.
6. The same methodology has been applied in the assessment since 2014, enabling comparisons across years and facilitating the identification of the main achievements and trends in the key areas of the colleges' work.
7. Overall, significant improvements have been achieved over the past couple of years in college interactions, responsiveness and the quality, coverage and reasoning of the joint decision documents. Further efforts are expected from both the home and host supervisors to enhance the joint decision process and the completeness of the SREP assessments. Figure 2 shows the overall progress achieved in the closely monitored colleges since 2014.
8. This improvement also reflects the engagement of the EBA with competent authorities: communicating expectations on the frequency of interactions and giving clear guidance on the articulation of the own funds requirements for the JD documents. The EBA tools, such as the online training and the Colleges Newsletter, also played an important role in this progress.

Figure 2 — Score development 2014-2017



[2] The EBA closely monitored 20 colleges in 2017. Nevertheless, this chapter includes only 19 of those colleges, as for one of them we lacked sufficient information for an assessment.

Organisational aspects of college work

Mapping of group entities

9. Based on the harmonised mapping template (Commission Implementing Regulation (EU) 2016/99), the consolidating supervisor and college members updated the mapping of the EU banking groups' cross-border presence in EU and non-EU countries.

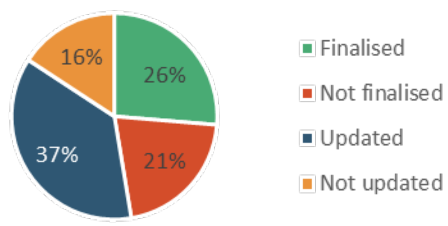
10. In general, the reported templates followed the harmonised format and content, and there was a good level of involvement of college members. For some colleges, information on non-EEA entities was not duly completed, or the criteria used for determining importance for the group or significance for the local market were not specific enough. In a couple of cases, the mapping update has not been submitted.

Written coordination and cooperation arrangements

11. To facilitate and establish effective supervision, the consolidating supervisor and the other competent authorities shall have written coordination and cooperation arrangements (WCCA) in place, in accordance with Article 115 of the CRD. Since the entering into force of Commission Delegated Regulation (EU) 2016/98 and Commission Implementing Regulation (EU) 2016/99 on supervisory colleges, which prescribe the content of the WCCA and the process for its establishment, the majority of colleges have finalised their WCCA.

12. Overall 15 of the closely monitored colleges had completed the WCCA by the end of 2017. Four colleges have not managed to finalise their WCCA since the entering into force of the Regulation, thus not complying with the provisions of the Delegated Regulation and Implementing Regulation on supervisory colleges, though they are close to an agreement.

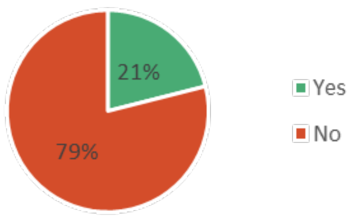
Figure 3 — WCCA status



13. While the WCCAs in general were of sufficient quality to support the operational arrangements of supervisory colleges, there is still room for improvement, in particular in elaborating on the terms of participation of observers and arrangements for cooperation with the resolution college or resolution authority.

14. Furthermore, a large number of colleges (79%) currently do not meet the requirements of the Delegated Regulation and Implementing Regulation on supervisory colleges, which require colleges to exchange quantitative information aiming to identify early warning signs, potential risks and vulnerabilities. Therefore, colleges should start regularly exchanging information on key risk indicators set out in their WCCA.

Figure 4 — Exchange of information on key risk indicators



College supervisory examination programme (SEP)

15. Based on Article 16 of Commission Delegated Regulation (EU) 2016/98, home and host supervisors have to identify on an annual basis the supervisory activities to be undertaken for the cross-border banking group they supervise. In this regard, two important aspects should be considered:

    a. the timely completion of the SEP in order to provide a meaningful plan and allow time for supervisory authorities to implement the required actions throughout the year;

    b. the exploration of joint areas of focus of the college work based on the group risk assessment.

Figure 5 — Month when the final college SEP was circulated

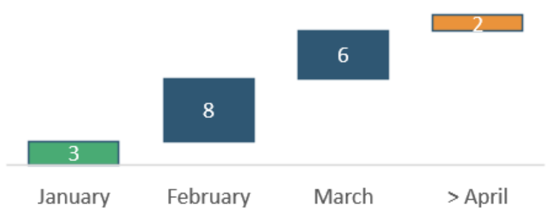
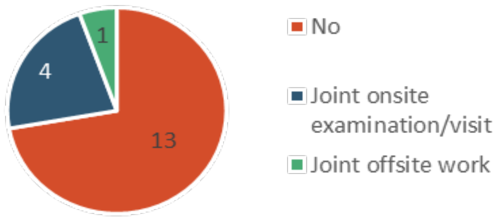


Figure 6 — Joint work included in the college SEP



16. While in the majority of cases (17) the finalisation of the SEP was performed in a timely manner to support the annual college activities, there were a few cases where this was done later than Q1 or not prepared at all. More joint activities were observed in 2017 than in previous years, but the majority of colleges still do not identify joint areas of work.

17. With regard to content of the SEPs, more colleges saw the merits of conducting joint onsite or offsite supervisory activities in 2017 than in previous years. For the majority (13 colleges), the college SEP still mainly comprises the compilation of the individual SEPs into a single document.

Good practices observed

As an outcome of the college discussion on the group and individual risk/liquidity risk assessment reports, the **consolidating supervisor identified joint college activity** to address some shared supervisory concerns.

College interactions

Intensity of college interaction — college meetings and conference calls

18.The expectations in terms of minimum intensity of interaction for the closely monitored colleges, communicated by the EBA, included quarterly college interactions in a suitable college setting, of which it was recommended that two interactions took the form of physical meetings, in order to promote more efficient and fluent interactions among competent authorities. In 2017, the vast majority of the closely monitored colleges fulfilled this expectation or even exceeded it, in terms of the number of physical meetings.

Figure 7 — Physical meetings in 2017 (number of colleges)

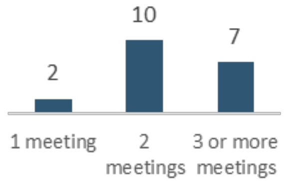
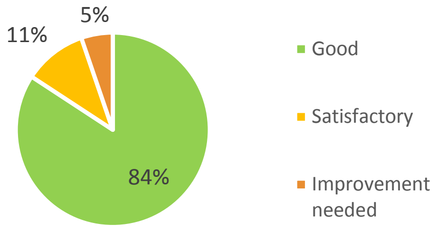


Figure 8 — Frequency/intensity of college interactions



19. In general, the EBA considered the intensity of college interactions to be 'good' if more interactions had been performed than the expected minimum (84% of colleges). In 2017, supervisors across Europe maintained their good efforts to cooperate with fellow supervisors in colleges. The EBA's practice of setting minimum expectations encouraged more intensive cooperation among banking supervisors and contributed to better functioning of supervisory colleges throughout the EU.

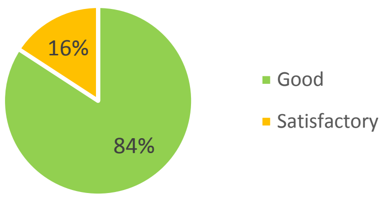
Good practices observed

Organisation of a dedicated '**model college**', where experts from competent authorities come together and discuss model validation, model changes or any other relevant topic.

Quality of college meetings

20. The overall assessment of the quality of the college meetings has been conducted relying on the *main driving forces of successful and effective college meetings* identified by EBA staff: (i) agenda of the meetings; (ii) meeting documents and presentations; *(iii) quality and depth of the discussions*; and (iv) minutes of the meetings.

Figure 9 - Quality of college meetings



21. The quality of the colleges has been assessed as 'good' in the vast majority of colleges that continued to implement good practices. The main reason for assessing some colleges as 'satisfactory' was the late distribution of presentations.

Good practices observed

The **'outline for host presentations'** shared by some consolidating supervisors before the college meeting aims to harmonise the way host supervisors deliver their findings. This was considered to be a positive practice.

The banks in some colleges were invited to the college meeting with **concrete topics for presentation** (update on the implementation of the strategy, etc.), instead of being asked to give general presentations. It helps colleges to be more efficient by concentrating on the topics of most concern to supervisors.

Responsiveness of colleges

22. In 2017, EBA staff continued to provide feedback to the consolidating supervisors of closely monitored colleges on a variety of aspects of colleges' functioning. The extent to which each consolidating supervisor followed up on these recommendations and on comments from other college members/observers is reflected in the assessment of the overall responsiveness of the college.

23. The consolidating supervisor maintained very good and active interaction with EBA staff in 84% of the colleges throughout 2017. In these cases, the home authority was very responsive to the EBA and to other college members' comments and recommendations, many of which were taken on board. However, the EBA would welcome improvements in three colleges, particularly regarding the cooperation of the consolidating supervisor in some areas. In these cases the EBA's suggestions and comments were not considered, or the year-end individual college assessment was not shared with the other college members.

Figure 10 — Responsiveness of the college

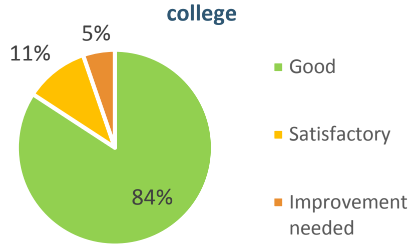
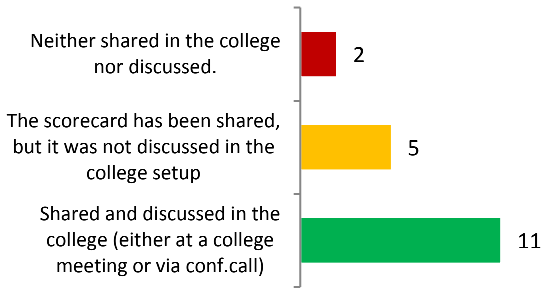


Figure 11 — Information on the EBA's yearly assessment 2016



24. The EBA also prepares the year-end college assessment, in the form of a structured scorecard, and provides this assessment to the consolidating supervisors. The EBA also encourages sharing and discussing the assessment by the college members, in order to reflect the outcome of the assessment in college activities.

25. In 2017, more than half of the colleges shared and discussed the year-end college assessment in the college setting. Only two colleges neither shared nor discussed the scorecard[3].

[3] One college became closely monitored in 2017, so it did not receive the scorecard in 2017.

Good practices observed

In some cases, when the college scorecard was discussed at college meetings, the consolidating supervisor **opened the floor for comments/suggestions from hosts on how to improve college functioning.**

Group risk/liquidity risk assessments

26.The group risk/liquidity risk assessments are indispensable products in the process of reaching joint decisions in colleges, as additional Pillar 2 requirements (P2R) and other supervisory measures captured by joint decisions are based on the outcome of risk assessments. The process of developing and finalising the risk/liquidity risk assessments and their main elements are specified in the binding Commission Implementing Regulation (EU) No 710/2014, so the EBA's assessment covers both the process aspect and the content of the group risk/liquidity risk assessment.

Process

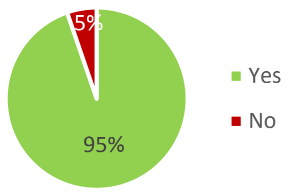
27.The draft group risk/liquidity risk assessment reports were circulated to college members at least one week before the meeting in most colleges, which is in line with the timeframe recommended by the EBA. This ensured that supervisors had ample time for preparation, and ultimately led to efficient discussions at college meetings. In one college, the draft group liquidity risk assessment was shared only after the college meeting.

28.All colleges dedicated sufficient time for exchanging supervisory views on the group and individual risk/liquidity risk assessments. It was appreciated that consolidating supervisors organised in-person meetings in all colleges, rather than conference calls, to discuss the group risk assessment. This enhanced the understanding of risk profiles among college members.

29.The timeline for reaching joint decisions on capital and liquidity was agreed and shared in all colleges, and was in line with the provisions of Commission Implementing Regulation (EU) 710/2014 in all colleges. It was evident that the process of planning the SREP and supervisory cycle and its implementation has been developed considerably over the past years.

30. All colleges except one circulated the final group risk/liquidity risk assessment, triggering the statutory timeframe for reaching joint decisions in accordance with Article 113 of the CRD, which is 4 months for the capital joint decision and 1 month for the liquidity JD.

Figure 12 — Circulation of final group capital risk and liquidity assessment reports



Content

31.While the group risk/liquidity risk assessment reports differed in terms of granularity across colleges, all were well drafted and provided a good summary of the outcome of the supervisory assessment. Those that proved to be very informative and comprehensive had the following characteristics: (i) they captured not only the backward-looking assessment of the risk profile, but also the forward-looking views on the evolution of all risk elements; (ii) they included distinctive conclusions on the risks and vulnerabilities as well as the control framework; and/or (iii) they included supervisory measures.

32. The justification for the assigned SREP scores have been explained thoroughly by more and more colleges, either in the risk/liquidity risk assessment itself or in the college meeting presentations.

33. The areas where more detail would have been useful in some of the risk/liquidity risk assessments are (i) the economic capital calculation and its reliability; (ii) the assessment of the business model, in particular to cover the main profitability drivers (e.g. business lines/products/geographies); and (iii) supervisory assessment of the credit institutions' liquidity stress testing.

34. The overall assessment shows that 26% of colleges were considered 'good' and an additional 16% 'satisfactory' for the group risk assessment, while 63% were assessed as 'good' for the group liquidity risk assessment and an additional 26% as 'satisfactory'. Colleges assessed as 'satisfactory with compliance issue' had fallen short of completing all of the mandatory annexes[4] of the group risk/liquidity risk assessment report in a timely manner, as required by Commission Implementing Regulation (EU) No 710/2014. They therefore failed to serve as an input to the college discussions on the risk assessment and joint decision. More specifically, the risk-by-risk determination of capital requirements was not shared in a timely manner in many colleges, meaning that the decomposition of the total SREP requirement, which should be an important input to the college discussions on the proposed capital add-on, was not transparent in these colleges.

35. Improvement is expected in 11 colleges regarding capital and in 2 colleges regarding liquidity. In these colleges some host authorities did not share the individual risk/liquidity risk assessments before the college interaction, or some relevant entities were missing from the compulsory annexes of the group risk/liquidity risk assessments.

[4] Risk-by-risk scores and decomposition of capital requirements as well as liquidity measures.

Figure 13 — Group risk assessments

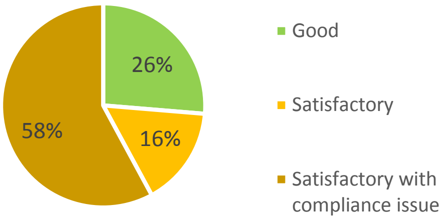
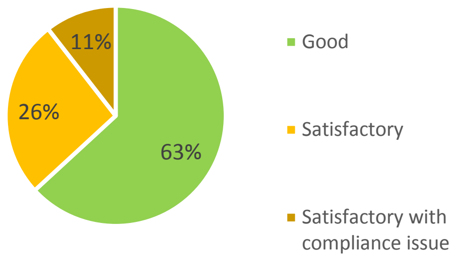


Figure 14 — Group liquidity risk assessments



Good practices observed

In some colleges, not only the group risk/liquidity risk assessment reports **but also the ICAAP/ILAAP documents** have been shared**.**

An **overview table of the risk scores** of the group and the various entities was provided to college meeting participants for complex banking groups, supporting risk assessment discussions.

Joint decisions on capital and liquidity

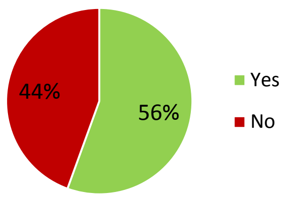
36.EBA staff conduct the yearly assessment of closely monitored colleges in view of the requirements set out in Regulation (EU) No 710/2014, which specify not only the process of reaching joint decisions in the college framework, but also the expected content of the capital and liquidity joint decision documents.

Process

37.The timeline for reaching joint decisions on capital and liquidity (JRAD timeline) was communicated in all colleges. This is important for all NCAs to understand the timeline and to be able to commit resources and plan the preparation of inputs accordingly. The JRAD timeline incorporated all steps of the process described in Article 3 of Regulation 710/2014 in all colleges, for reaching both the capital and the liquidity JD.

38.Only 56% of colleges secured the final[5] capital joint decision within the legally applicable timeframe, i.e. within 4 months of the submission of group risk assessment reports by the consolidating supervisor to the other relevant competent authorities. Almost half of the colleges that did not strictly meet the 4-month deadline nevertheless completed the joint decision process within 2 weeks of the expiration of the 4-month deadline.

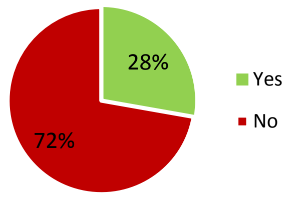
Figure 15 — Compliance with the 4-month requirement of CRD



[5] The joint decision is deemed to be final when it is evidenced in writing by the representatives of the consolidating supervisor and the relevant competent authorities.

39.The statutory timeframe for reaching the liquidity joint decision is considerably stricter than that for the capital joint decision (1 month compared with 4 months), which is reflected in the relatively low proportion of colleges (28%) that managed to secure the final decision within this timeframe.

Figure 16 — Compliance with the 1-month requirement of CRD



40.In the majority of colleges the joint decision process for the capital and liquidity was run as a single process, so the main conclusions are relevant for both.

41. In 47% of closely monitored colleges, EBA staff assessed the process of reaching joint decisions as ‘good’. In the previous year this number was only 30%. In these colleges, the draft joint decision documents were distributed well before the college discussions, facilitating good interactions by host authorities, and ample time was allocated for the exchange of views on the draft JD. These colleges also ensured that college members were informed of banks’ comments on the draft JD submitted within the hearing period.

Figure 17 — Joint decision process: capital

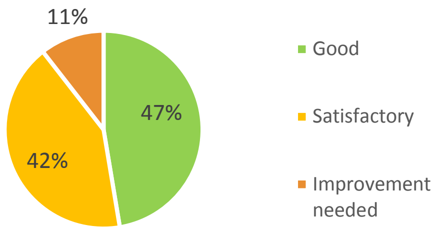
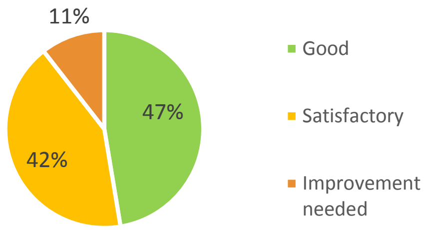


Figure 18 — Joint decision process: liquidity



42. Colleges that received a good score all ensured dialogue between the consolidating supervisor and the relevant competent authorities, in a multilateral setting, to discuss and agree upon the proposed capital and liquidity requirements. Alternatively, some of them developed well-designed and efficient written procedures for exchanging views and providing comments on the draft capital and liquidity joint decisions, which always respected the multilateral setting.

43.A distinct improvement in the process was noted compared with last year, as college discussions were organised based on the draft joint decision document in the majority of colleges, which included preliminary quantitative and qualitative requirements for capital and liquidity in 2017.

44.Colleges assessed as ‘satisfactory’ (47%) had challenges in timely distribution of the draft JD/liquidity JD before the call/meeting, or difficulty obtaining the signature of host authorities, that required EBA follow-up. In addition, some colleges failed to initiate discussions or multilateral written communications on the proposed requirements.

45.Two colleges were allocated to the ‘improvement needed’ category for two reasons: (i) for not sharing the draft and final JD/liquidity JD in the college framework, but interacting only on a *bilateral basis* with the signatory NCAs; or (ii) for not sharing the draft JD *before* the college interaction, which obviously hindered host authorities' preparations for sharing comments in the call/meeting.

Joint decision documents — capital and liquidity

46. EBA staff observed improvement in the content of the capital and liquidity joint decisions when comparing the 2017 results with those of 2016. This improvement is explained in the paragraphs below.

(i) Reasoning of the joint decisions

47. Supervisors made considerable efforts to improve the granularity of information underpinning the required level of capital in the capital joint decisions. In general, the JD documents were well reasoned and contained clear references to the conclusions of the SREP, as reflected in the group risk assessment reports. Further improvement of the reasoning for the group was expected only in one college.

Figure 19 — Assessment of the content of the JD document: capital

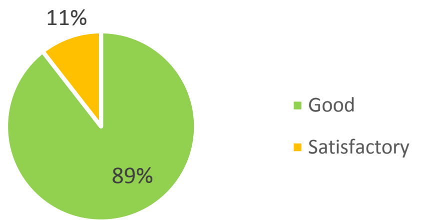
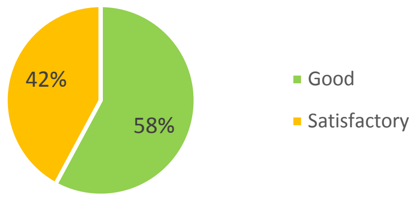


Figure 20 — Assessment of the content of the JD document: liquidity



48. Regarding the liquidity joint decisions, the reasoning in general was not as robust as for the capital joint decisions, and the granularity of the rationale varied across the entities of banking groups. More liquidity JDs would have benefited from more detailed information for the subsidiaries. At group level, the same college needs improvement as for the capital JD.

49. Another issue with the liquidity JDs was that, in more colleges (21%), the link between the outcome of the liquidity risk assessment and the decision on applying liquidity measures or not was not clear, particularly for those entities that received an overall liquidity score of 3 and for which no liquidity measures were proposed.

50. In line with Article 10(1)(f-g) and Article 11(1)(e-f) of Regulation 710/2014, all capital JDs included conclusions on the adequacy of own funds of the group and entities, while the liquidity JD covered the conclusions on liquidity adequacy.

(ii) Articulation of the additional capital requirements

51. EBA staff worked closely with NCA staff to clearly communicate requirements regarding the articulation of own funds requirements in the JD documents. Therefore, providing clear notice

of the TSCR along with its breakdown into Pillar 1[6] and Pillar 2[7] elements brought articulation of the requirement into line with the SREP Guidelines. In addition, all authorities have made efforts to provide details on the quality of P2R.

(iii) Combined buffers and capital planning requirements

52. A shortcoming was identified in that many joint decision documents failed to provide references to P2G, which is a requirement under Article 10(1)(j) of Regulation 710/2014. In addition, the stacking order of the P2G should also be clarified in the JD document, i.e. that it should sit on top of the CET1 portion of the TSCR.

Joint decisions on the assessment of GRPs

53. According to Article 8 of the BRRD, the consolidating supervisor and the competent authorities of the subsidiaries shall endeavour to reach a joint decision on the following: (i) assessment of the GRP; (ii) whether or not individual recovery plans should be drawn up for the subsidiaries; and (iii) application of measures to address material deficiencies in the GRP.

54. The processes for reaching a joint decision on the GRP further improved in 2017, as the vast majority were well structured and transparent. All group recovery plans of closely monitored supervisory colleges were submitted by banking groups for supervisory review. The timeline for reaching an agreement on the assessment of the GRP was communicated by the consolidating supervisor to host authorities. In some colleges, host authorities expressed their desire for a more detailed timeline that would help to address concerns about the tight timeframe available for them to assess the plan.

55. No issues were identified by EBA staff regarding the timely circulation of the GRP and the preliminary assessment to college members.

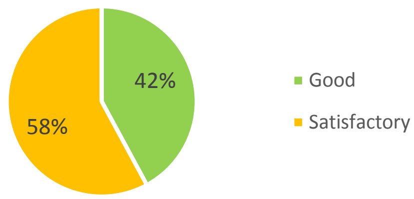
56. In around half of the colleges, members were unable to reach a JD on the request for individual recovery plans, resulting in either partial joint decisions or unilateral decisions. Despite considerable efforts from the consolidating supervisor to integrate individual recovery plans into the group document, because of the disagreement of one authority with this approach no JD could be reached in a number of colleges. As this is a recurring issue, EBA staff pointed out that college members are invited to consider applying for non-binding EBA mediation as an option for securing agreement.

[6] Own funds requirement pursuant to Article 92 of Regulation (EU) 575/2013.

[7] The sum of additional own funds requirement.

57.In total, 42% of colleges were assessed as 'good', implying that all aspects of the JD process were well managed and the assessment of the GRP was comprehensive. The colleges that did not manage to reach an agreement (i.e. partial JD or unilateral decisions) could not be qualified as 'good', even if the supervisory assessment of the GRP was of good quality.

Figure 21 — Recovery plan assessment and joint decision document



58.While the vast majority of colleges completed the assessment by using the assessment template annexed to the Single Supervisory Handbook (SSH), the rest also followed its scope and structure in sufficient depth.

59.Supervisors identified material deficiencies in only one GRP, which resulted in agreement to request an action plan from the institution to explain how it intends to address these deficiencies.

60.All colleges but two managed to reach a joint decision/partial joint decision within the 6-month deadline provided by the BRRD. This deadline is set from when the plan is submitted by the relevant banking group (Article 6(2) of the BRRD).

Key topics for supervisory attention in 2017

61.Every year, as part of its work on risks and vulnerabilities in the European banking system, the EBA identifies risks that pose major threats to EU cross-border banking groups and thus represent significant concerns for the EU supervisory authorities. In addition, building on its policy work, the EBA identifies important policy topics. Consequently, the EBA invites competent authorities supervising cross-border banking groups to pay them particular attention, including analysing and discussing them at college meetings. For 2017, the following topics were identified:

a. **NPL and balance sheet cleaning**: legacy portfolios (differences in NPL coverage across jurisdictions) and new portfolios;

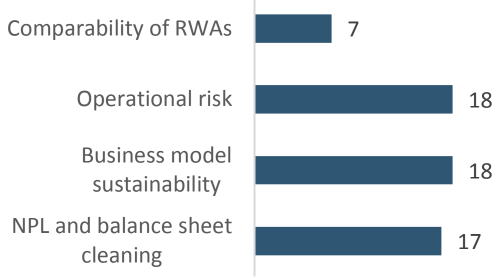
b. **business model sustainability**: low interest rates, potential asset bubbles, increased competition from non-bank market participants;

c. **operational risk**: mainly conduct risk (profitability impact of conduct and litigation risk) and IT risk (cybercrime, risks from technical innovations);

d. **comparability of RWAs** and the use of EBA benchmarks in SREP assessments.

62.Almost all closely monitored colleges have put analysis and discussions on NPLs, business model sustainability and operational risk on their college agendas. Since all these topics constitute an integral part of SREP, the analysis was performed within the development of the group risk assessment.

Figure 22 — Specific topics discussed during college interactions (number of colleges)



63.On the other hand, the comparability of RWAs and the use of EBA benchmarks in SREP assessments was covered considerably less broadly within the college structures.

Colleges monitored on a thematic or selected basis

64. For the colleges followed on a thematic or selected basis, EBA staff interact with the college for specific topics. This may include, *inter alia*, participation in specific college activities (for instance assessment of group recovery plans) or supporting colleges with additional thematic communication (newsletters, thematic emails).

65. Assessment of the colleges followed on a thematic or selected basis focuses on the same core topics as for the closely monitored colleges discussed in the previous chapter, and is based on observations from activities in which the EBA participated and on completed self-assessments provided by 46[8] of the existing 54 colleges.

Organisational aspects

66. Similarly to 2016, only two thirds of the colleges completed the WCCAs. Considering that Commission Delegated Regulation (EU) 2016/98 on the functioning of colleges of supervisors came into force in October 2015, more colleges might have been expected to have completed WCCAs by end 2017. Therefore, EBA staff will provide further guidance to this group of colleges in 2018, to support the finalisation of the WCCAs.

Figure 23 — WCCAs

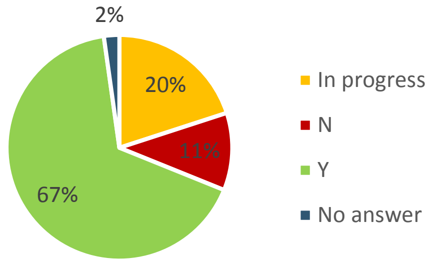
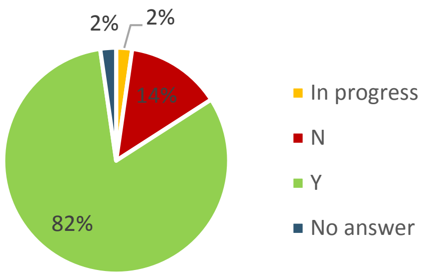


Figure 24 — SEPs



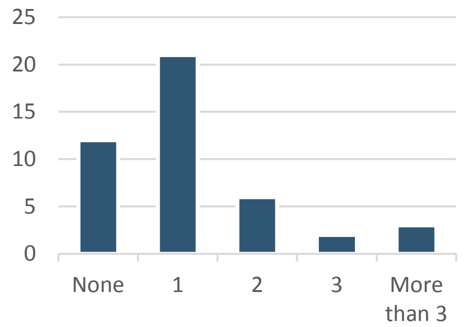
67. The majority of thematic colleges (82%) compiled a college-specific SEP. This is line with 2016, which proves that coordination among college members with regard to planned activities is well established. The five colleges that reported that no SEP had been formally established for 2016 referred to simple group/college structure (two members) or to the low relevance of the group in the banking system.

[8] Because they submitted the template in an incompatible format, two of these 46 colleges had to be removed from the statistics.

College interactions

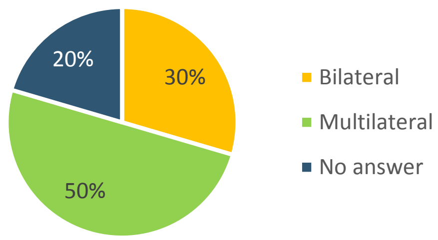
68.Of the sample of 46 colleges, the majority (47%) held one meeting in 2017. More than a quarter held no physical college meeting before November 2017[9], but most of these had some kind of interaction (by either email or telephone). The EBA attended seven physical meetings and six conference calls organised by the thematic colleges in the course of 2017, mainly in topics related to the SREP and the group recovery plan.

Figure 25 — Number of physical college meetings in 2017



Quality of college meetings

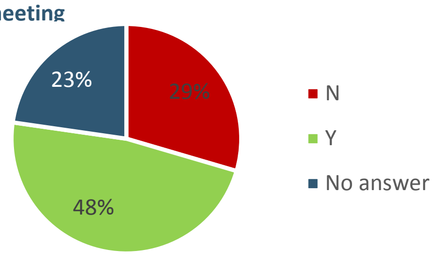
Figure 26 — College meeting discussion



69. In terms of college meetings, a majority (59%) of the 44 colleges indicated that the quality and depth of the discussions was perceived as 'good'. Moreover, there was a slight improvement compared with 2016, as half of the colleges mentioned that discussions were multilateral. Importantly, more than three quarters of the colleges stated that the different authorities challenged each other's contributions to at least some degree.

70.A good practice that has been observed in almost half of the colleges (48%) is to invite banking group representatives to attend the meeting, in order to provide college members with a first-hand update on some topics. In 17 out the 21 colleges where the banks attended the meeting, the host supervisors actively particpated in asking questions.

Figure 27 — Banking groups attending the meeting



Group risk/liquidity risk assessment and joint decision process

71.Draft group risk assessment reports have been prepared and shared in 68% of the respondent colleges, including contributions from the relevant competent authorities, and used all relevant annexes (Annex III, Annex IV table 1 and table 2 for capital of the Commission Implementing Regulation (EU) No 710/2014). For liquidity risk assessment this figure was 66%. In a small number of colleges, either the group risk/liquidity risk assessment or its mandatory annexes were not shared, or were shared very late following central guidance.

[9] Deadline for the submission of self-assessments.

72. A dialogue is expected between the consolidating supervisor and the relevant competent authorities on the draft group risk assessment report, in the process of reaching common conclusions on capital adequacy and on the proposed capital requirements, in accordance with Commission Implementing Regulation (EU) No 710/2014. The majority of colleges (73%) that responded held discussions on both the risk/liquidity risk profile and the proposed supervisory measures.

73. The proportion of colleges that held substantial discussions on the liquidity risk assessment and liquidity joint decision is the same (70%) as for the risk assessment and capital joint decision.

Figure 28 — Sufficient dialogue between competent authorities: capital

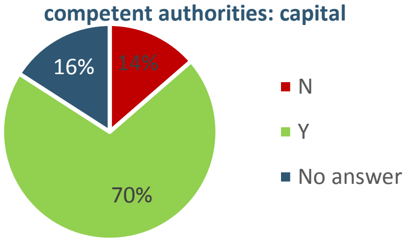
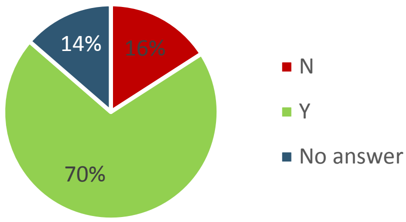


Figure 29 — Sufficient dialogue between competent authorities: liquidity



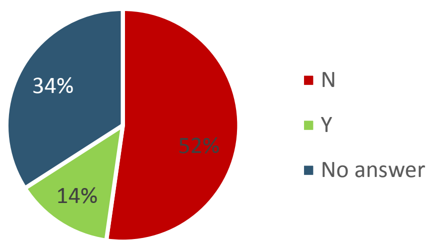
Joint decision on recovery plans

74. For more than half of the 44 colleges that provided valid self-assessment templates, the consolidating supervisor circulated the group recovery plan and preliminary assessment in a timely manner, which is a considerable improvement compared with one third in 2016. Further, completion of the assessment of the group recovery plan within the envisaged 6-month timeframe was achieved in 48% of colleges, also an improvement compared with the 34% observed in the previous year.

75. However, six colleges of the sample reported insufficient dialogue between the relevant competent authorities.

76. When individual plans were requested, only 40% of the colleges reached a joint decision on the need for those individual plans. Also, in 52% of the colleges there were no formal requests to resubmit the plan when material deficiencies were identified.

Figure 30 – Formal requests to resubmit the plan within 2-3 months when material deficiencies were identified



EBA tools facilitating the functioning of colleges and training

77.The EBA is tasked with contributing to, promoting and monitoring the efficient, effective and consistent functioning of supervisory colleges across the EU, including the consistent application of EU law. Therefore, EBA staff provided continuous support and guidance to colleges throughout the entire joint decision cycle and also with more operational tasks.

(iv) Training

78.The EBA organised 16 training courses for supervisors in 2017, of which six courses covered Pillar 2 and/or college-related topics.

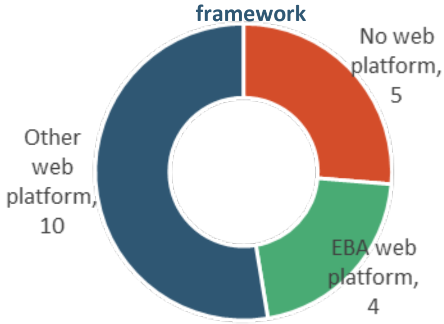
	Title	Date	Host	Attendees
1	The role of mediation in colleges	22 March 2017	EBA, London	12
2	Online training: SREP and methodology for assessment of risks	12-19 May 2017	Online	110
3	Supervisory colleges and joint decisions	6-7 June 2017	EBA, London	28
4	Online training on recovery planning	6-16 June 2017	Online	36
5	Practical application of and methodological aspects of business model analysis (BMA)	4-5 December 2017	EBA, London	64
6	IT risk on supervision and cloud outsourcing	18-19 December 2017	EBA, London	76

79.After the successful introduction of online training courses[10] in 2016, and following the increase in demand in 2017, the EBA started to build its in-house online training platform in 2017.

(v) EBA IT collaboration tool

80.Competent authorities of 14 of the closely monitored colleges use a secure IT platform as a means of communicating with other college members and transmitting confidential information, although only four have used the EBA IT collaboration tool (a SharePoint tool) on a regular basis. EBA staff continued to promote the SharePoint tool over the course of 2017. The tool offers colleges a secure way of exchanging confidential information through its two-factor authentication system, and is readily available for colleges to join.

Figure 31 — Means of exchanging confidential information in the college framework



[10] In collaboration with the European University Institute (EUI), in 2016.

(vi) Quarterly EBA Colleges Newsletter

81. Two issues of the EBA Colleges Newsletter were published over the course of 2017 (Q2 and Q3), and distributed not only to closely monitored colleges, but also to colleges followed on a thematic or selected basis, with which the EBA's interaction is less frequent.

82. All supervisors could be informed of the latest regulatory developments and their influence on college activities, as well as the main risks and vulnerabilities that are relevant for colleges.

Annex I — 2018 EBA Colleges Action Plan

Introduction

1. Supervisory colleges are the forums for planning and coordinating supervisory activities, for sharing important information about the supervised entity and, most importantly, for conducting the supervisory risk/liquidity risk assessment and reaching joint decisions on institution-specific requirements.

2. The EBA, as a member of colleges set up for the supervision of cross-border institutions, is tasked with contributing to, promoting and monitoring the efficient work of these colleges across the EU. Furthermore, the EBA has a leading role in ensuring coherence in the application of EU law among colleges of supervisors, as well as ensuring their consistent functioning.

3. To ensure that the EBA delivers on the above tasks and responsibilities, it establishes an action plan for supervisory colleges on a yearly basis, providing competent authorities responsible for supervising cross-border institutions with a set of objectives and deliverables, in line with the Level 1 and Level 2 provisions. The Colleges Action Plan is relevant not only to the closely monitored colleges, but also to colleges followed on a thematic and selected basis.

4. Importantly, the annual EBA Colleges Action Plan also sets out the approach to be followed and the activities to be undertaken by EBA staff in supporting and monitoring colleges, in line with the EBA's statutory mandate.

5. During the development of the 2018 Colleges Action Plan, the EBA considered the findings and experience from the college monitoring activity in 2017, but the Plan also benefits from the EBA's work on risks and vulnerabilities and from regulatory developments with cross-border implications, both of which serve as input for the key topics for supervisory attention. The 2018 Colleges Action Plan outlines:

   a) the key tasks for supervisory colleges;

   b) the key topics for supervisory attention in 2018;

   c) the EBA's approach for college monitoring in 2018.

Key tasks for supervisory colleges

6. Supervisory colleges are expected to maintain a good level of cooperation in 2018 and to pursue convergence by ensuring that all tasks required by the relevant legal framework are performed. In particular, colleges of supervisors are to complete the annual joint decision/SREP cycles by conducting the regular supervisory tasks and processes, in line with the Level 1 and Level 2

Regulations. Supervisors are expected to organise their efforts and resources to maintain and manage the operational aspects of college work. They are also required to plan and perform a number of supervisory activities in a coordinated manner, which stems from legal requirements aiming to enhance the supervision of cross-border groups.

7. In this context, the main tasks arising for supervisory colleges in 2018 include:

   a) updating the mapping of cross-border group entities with all of the relevant information envisaged in the template of Annex I of Commission Delegated Regulation (EU) 2016/98 on the functioning of colleges of supervisors;

   b) considering expanding the list of authorities with observer status in the light of the outcome of the EBA's work on equivalence assessment of professional secrecy provisions of non-EU supervisory authorities, following the process envisaged in the Level 1 and Level 2 provisions;

   c) establishing and maintaining the WCCAs (e.g. elaborating on details of collaboration and interaction with resolution colleges, defining risk indicators to be exchanged in the college framework);

   d) organising physical meetings and maintaining ongoing interaction in other forms (e.g. conference calls, emails, written consultations);

   e) adopting an annual college SEP, noting joint and individual supervisory activities, resources committed from college members, and the timing and duration of these activities;

   f) organising and establishing timelines for the joint decision cycles envisaged by the CRD and the BRRD;

   g) developing and finalising the group risk assessment and group liquidity risk assessment;

   h) reaching joint decisions on capital and liquidity;

   i) reaching a joint decision on the assessment of group recovery plans, measures to address impediments to these plans and the need for individual recovery plans covering entities of the group; and

   j) organising and concluding other joint decisions as required by the regulatory framework of the CRD/BRRD (e.g. approving the use of internal models or the determination of a liquidity sub-group).

8. The general principle followed is that the Action Plan does not set common deadlines applicable across all colleges for the completion of various actions and deliverables, but rather EBA staff follow the specific SREP cycle of individual colleges. However, with regard to two deliverables, it is important to assign deadlines based on past experience of EBA staff, in particular because of missed or considerably delayed completion in many colleges:

   - updating of the mapping template: **28 February 2018;**
   - completion of the annual college SEP: **31 March 2018.**

Key topics for supervisory attention in 2018

9. Through its participation in colleges, the EBA collects valuable information on an institution-by-institution basis, the aggregation of which helps the EBA to identify key areas of concern and attention points for future supervisory work. In addition, the EBA's work on risks and vulnerabilities in the European banking system aims to identify the main forward-looking view on risks that are, from a macro perspective, of concern to the regulatory and supervisory community. Furthermore, the outcome of relevant policy work being conducted at the EBA also supplements the process of identifying key topics for supervisory attention on a yearly basis.

10. Competent authorities supervising cross-border institutions within the framework of supervisory colleges should pay particular attention in 2018 to the key topics outlined below. The EBA recognises that not all topics listed below (in 1.3.1 and 1.3.2) will be equally relevant for different credit institutions, so it is expected that colleges discuss their relevance early on and include the agreed priorities in the college SEP. The relevant priorities should then be embedded in college work in 2018 (college discussion, joint activity, onsite activity, offsite activity, etc.).

Key topics linked to risks faced by EU banks

a) NPL cleaning

11. While the percentage of non-performing loans (NPLs) continues on an improving trend (4.2% EU weighted average in Q3 2017), dispersion of NPL ratios across countries remains wide, signalling that, for a considerable number of countries and institutions, the NPL problem remains an issue. In addition to the SREP and joint decision discussions, which address credit risk in general, supervisory authorities are expected to focus on ongoing balance sheet cleaning and active management of NPL portfolios in particular, including the establishment of strategic objectives for the time-bound reduction of legacy portfolios and intensive dialogues with banks. Supervisors in colleges are also expected to explore the NPL workout framework and practices across group entities, and the justification for differences in the coverage of NPLs across different jurisdictions. Supervisors should also look into banks' underwriting standards, which influence the quality and composition of new loan portfolios, in order to detect potential credit standard loosening and to share findings in the college.

b) Business model and profitability

12. Supervisory authorities are requested to pay particular attention to the viability and sustainability of banks' business models, on the basis of whether or not they are able to generate acceptable returns. A number of factors are a drag on profitability, among them protracted low interest rates and potential asset bubbles, and banks are trying to adapt their business model to adjust to these external factors. In this context, supervisors should make sure that the execution risk stemming from the implementation of strategic changes is kept at a minimum level, and that banks actually deliver on the planned targets. Furthermore, supervisors are

invited to consider the effects of potential tightening on asset prices and the potential changes in interest rates on banks' profitability and viability.

13. Another aspect of the challenges that banks' business model currently faces is the effect of financial innovation (FinTech)[11] and emerging new technologies/products. Apart from the opportunities they offer, supervisors should assess the disruptive potential of FinTech and new market entrants for individual institutions over time, if those institutions fail to invest in and keep up with new technologies.

c) IT risk and operational resilience

14. In connection with IT risk, supervisory authorities should pay particular attention to the risks related to cybercrime and information security risk, concerns about connectivity and outsourcing to third-party providers, and outdated technology environments. In addition, FinTech provides challenges for the banking sector, and supervisors should explore the risks the institutions will undertake if they embrace and adopt it (e.g. IT interdependencies between market players and market infrastructure).

15. In terms of operational resilience, supervisors should look at individual institutions in a broader context. Supervisors also need to examine how well institutions' business activities and supporting services are designed to adapt to failures in any part of their infrastructure, and how far they will be able to ensure that critical services are maintained in the event of disruption. In doing so, supervisory authorities are encouraged to outline their approach to operational resilience to college members, and to inform them of the basis of their assessment.

d) Internal governance

16. Competent authorities are advised to follow closely the risk the deficiencies in the internal governance arrangements and institution-wide control framework pose to an institution's viability. In this respect, the EBA observed deterioration across closely monitored colleges in a number of areas. An aspect with particular relevance to supervisory colleges is the local implementation, monitoring and escalation of group-wide policies/guidelines, as well as the effective oversight of subsidiaries by the parent. Another area of concern is the weakness of the second and third lines of defence in general, and the compliance function in particular. The ultimate oversight exercised by the board should also be strengthened. Supervisors should ensure that institutions dedicate more attention to bringing their data quality and risk data aggregation capabilities into line with BCBS 239.

17. The Guidelines on internal governance under Directive 2013/36/EU will apply from June 2018; therefore, competent authorities should ensure that institutions pay particular attention to the additional requirements compared with the earlier set of guidelines on internal governance (among others, the strengthening of the management body's oversight and the risk

[11] Some examples of financial innovations are customer digital identification, biometric technology, roboadvice and virtual currency.

management framework, as well as the further increase of the transparency of institutions' offshore activities).

Risks due to topical issues

e) Brexit

18. Given the UK's withdrawal from the EU and the surrounding uncertainties, supervisors should look into the ways individual banks might be affected and discuss these findings in the college framework. In particular, supervisors should assess and identify:

- relocation expectations regarding concrete and expected changes in the legal form of individual banks in the UK (e.g. branches, subsidiaries);
- the volumes, concentration and types of financial services regarding payment services and those offered under the Freedom of Services provisions, as well as the ability (and expectations) of individual banks to continue to deliver such financial services;
- the volume of deposits and/or loans towards the UK, and connected FX risk;
- the dependency on short-term wholesale funding from the UK;
- the volume of derivatives exposures towards the UK, which highlights the risk that potential restrictions to access to the UK derivative markets may pose;
- the volume of exposure to and dependence on UK CCPs and the risk that the non-availability and non-recognition of UK CCPs could pose for banks' market activity.

19. A further consideration is the legal uncertainty around the continuity of contracts in the event of a cliff edge scenario. Supervisors should expect banks to mitigate these uncertainties by contingency planning.

f) Structural changes

20. With reference to the various M&A activities undertaken in 2016-2017 in the EU banking sector, supervisors are expected to follow the process of integrating the acquired institutions (assets or business lines) into the acquirer's business structure and operation, in line with the strategic considerations. Similar structural changes shape UK banks' operations at present, as the retail banking operations are being separated from any wholesale and investment banking activities. In addition, the transition of some banking groups' presence in some of their core markets from subsidiaries to branches, together with changes of headquarters, also brings considerable challenges in their operation. Supervisors need to make sure that institutions have appropriate arrangements in place to implement these structural changes without posing additional risk to the viability of the institution.

g) IFRS 9

21. The introduction of IFRS 9 requirements applicable for the accounting periods beginning on or after 1 January 2018 is highly relevant to the banking industry. The main impact relates to the IFRS requirements on expected credit losses, which should lead to earlier recognition of credit

losses, affecting more financial assets and at a higher amount. The overall impact depends on the nature of the individual institution's portfolio of assets as well as on the existing level of provisions. The implementation is relevant from a group perspective that supervisory colleges should discuss together with the implementation of the Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses applicable also from 1 January 2018.

The EBA's approach to college monitoring in 2018

Continuation of monitoring with emphasis on key topics for supervisory attention

22. In 2018, EBA staff will continue to support and monitor college functioning, and assist colleges in applying EBA technical standards and guidelines and other relevant parts of the Single Rulebook. With regard to closely monitored colleges, EBA staff continue to be actively involved in college meetings, provide topic suggestions for the agenda and deliver presentations at college meetings, focusing on institutions' risks and vulnerabilities as well as policy updates. Furthermore, in 2018 the EBA will continue to provide feedback to the consolidating supervisor after meetings, as well as on the main deliverables (joint risk/liquidity risk assessment, joint decisions).

23. EBA staff intend to continue issuing the EBA Colleges Newsletter on a regular basis, to provide home and host supervisors with updates on the EBA's policy work as well as on college- and convergence-related information, together with relevant risk analysis and training. While the newsletter is distributed to a wide audience of home and host supervisors, it is particularly useful for the consolidating supervisory authorities of colleges that are not in continuous individual contact with EBA staff (colleges followed on a thematic and selected basis).

24. The EBA will continue to assess the equivalence of CRD confidentiality provisions to facilitate cooperation and collaboration in the colleges of supervisors, and will update the issued Recommendation to assist competent authorities in arriving at a common conclusion when identifying third-country authorities in view of their participation in EU supervisory colleges.

25. In 2017, EBA staff performed a second round of bilateral convergence visits on the application of the SREP Guidelines. These bilateral visits proved to be mutually beneficial for EBA staff and competent authorities. While EBA staff had the opportunity for direct interaction with experts and to better understand the individual approach of different competent authorities, competent authorities had the chance to clarify any potential uncertainties with EBA staff on how to apply the SREP Guidelines. During these visits, EBA staff also engaged with line supervisors participating in supervisory colleges, who apply the provisions of the SREP Guidelines in practice through their daily work and by conducting the risk/liquidity risk assessment, the results of which are then channelled into the college framework. In 2018, the EBA will continue with bilateral engagement with the competent authorities.

26. For colleges followed on a thematic and selected basis, EBA staff introduced self-assessment templates in 2016 which provide invaluable information for the EBA and help identify areas where the EBA's support and intervention is needed. As the experience has shown that such broader outreach is very useful, the EBA will continue to use the self-assessments for those colleges that are identified as 'thematic or selected colleges'. In addition, the EBA will continue to interact with these colleges based on specific interest (e.g. recovery planning, FinTech) and disseminate the EBA Colleges Newsletter to them on a regular basis.

27. For closely monitored colleges, enhanced focus will be placed by EBA staff on the key topics for supervisory attention within its engagement with individual colleges. In particular, the EBA will:

    a. discuss with the consolidating supervisor and with the college the key priorities/topics relevant to the particular institution;

    b. follow up on how the supervisory planning takes account of these priorities and how far they influence supervisory activities in 2018;

    c. provide support and input to colleges on the items relevant to the particular college;

    d. assess at year end how far colleges acted upon the agreed key topics for attention.

28. With regard to thematic and selected colleges, the Action Plan envisages EBA staff involvement in the activity of a subset of colleges on a rotating basis, meaning that EBA staff will attend meetings organised by different colleges each year. This interaction will be combined with using information gathered from the self-assessment templates regarding the functioning of colleges, in identifying those colleges for which the EBA's presence at college meetings is most valuable.

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